

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**YEAR ENDED JUNE 30, 2004**

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

30-1150

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF SOMERSET, MICHIGAN	County HILLSDALE
Audit Date 06/30/2004	Opinion Date 09/02/2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan with the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

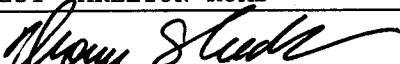
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

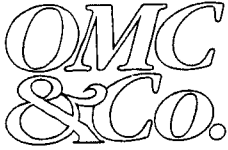
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) OSBOURNE, MARCH, CONDON & CO., P.C.			
Street Address 184 WEST CARLETON ROAD	City HILLSDALE	State MI	ZIP 49242
Accountant Signature 			

TOWNSHIP OF SOMERSET, MICHIGAN

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I - II
MANAGEMENT'S DISCUSSION AND ANALYSIS	III - VIII
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS:	
BALANCE SHEET - ALL GOVERNMENTAL FUNDS	3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	6
FIDUCIARY FUND:	
STATEMENT OF ASSETS AND LIABILITIES	7
NOTES TO FINANCIAL STATEMENTS	8 - 21
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	22
BUDGETARY COMPARISON SCHEDULE - MAJOR SPECIAL REVENUE FUND - ROADS	23
BUDGETARY COMPARISON SCHEDULE - MAJOR SPECIAL REVENUE FUND - FIRE	24
OTHER REPORTS	
GAO <i>GOVERNMENT AUDITING STANDARDS</i> REPORT	25 - 26
COMMUNICATION TO TOWNSHIP BOARD	27 - 29
AUDITOR'S COMMENT AND RECOMMENDATION	30 - 31



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

## INDEPENDENT AUDITOR'S REPORT

Township Board  
Township of Somerset, Michigan  
Somerset Center, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Somerset, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004 on our consideration of Township of Somerset, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

As described in NOTE 12, the Township of Somerset, Michigan has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis on pages III through VIII is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying required supplemental information, identified in the table of contents, is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. Our audit was conducted for the purpose of forming opinions on the financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Astbourne, Manch, Condon + co., P.C.,*

Certified Public Accountants

Hillsdale, Michigan  
September 2, 2004

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the Township of Somerset (the "Township") provides an overview of the Township's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Township's financial statements.

**Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2004:

- The financial report for the year ended June 30, 2004 reflects complete implementation of Governmental Accounting Standards Board Statement Number 34, which significantly changed the content and format of municipal financial reporting. Accordingly, these statements present both entity-wide financial reporting for all governmental activities in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 6.
- Property taxes are the Township's single, largest source of revenue. The Township's tax base for fiscal year 2004 was equal to a taxable value of \$143,728,000, which represents an increase of \$6,172,000 or 4.3 percent.
- State-shared revenue, the second largest revenue source, was reduced by the State of Michigan by approximately \$18,000 this year. This represents a 6 percent decrease from the prior year.
- The Township was awarded a \$323,000 Scrap Tire Cleanup Grant from the Department of Environmental Quality (DEQ) towards the continuous efforts to cleanup a site owned by a local property owner.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township of Somerset's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick and vacation leave).

Management's Discussion and Analysis

**Overview of the Financial Statements (Concluded)**

**Government-wide financial statements (concluded).**

The governmental activities of the Township include general government, public safety, highways and roads, capital improvements, and parks and recreation.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Somerset, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Somerset maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Roads Fund, Fire Fund, Debt Retirement Fund, and Capital Improvement Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation and are comprised of the Police Fund, Parks and Recreation Fund, and the Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for all its funds. Budgetary comparison schedules have been provided for the General, Roads, and Fire Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Township of Somerset's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 7 of this report.

**Financial Analysis of the Township as a Whole**

The Township's net assets increased by approximately 5.5 percent from a year ago – increasing from \$1.7 million to \$1.8 million.

The increase in net assets of governmental activities in the amount of \$99,888 is primarily due to the reduction in outstanding debt and in Township spending. This is evident due to the fact that actual spending was less than budget.

The following table shows, in a condensed format, the net assets of the Township of Somerset as of June 30, 2004 and 2003.

TABLE 1 – Township of Somerset's Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current assets	\$ 741,413	\$ 678,380
Noncurrent assets	1,269,606	1,304,948
Total Assets	<u>\$2,011,019</u>	<u>\$1,983,328</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities	\$ 87,653	\$ 80,468
Long-term liabilities	92,500	171,882
Total Liabilities	<u>\$ 180,153</u>	<u>\$ 252,350</u>
Net Assets		
Invested in capital – net of related debt	\$ 911,158	\$ 914,288
Restricted	66,069	68,500
Unrestricted	853,639	748,190
Total Net Assets	<u>\$1,830,866</u>	<u>\$1,730,978</u>
Total Liabilities and Net Assets	<u>\$2,011,019</u>	<u>\$1,983,328</u>

## Management's Discussion and Analysis

**Financial Analysis of the Township as a Whole (Concluded)**

Prior year data is not available for the government-wide results of operations. Comparative analysis will be provided in future years when prior year information is available. The following is the government-wide results of operations for the fiscal year ended June 30, 2004:

The Township's total revenues were \$1,198,185 for the current year, of which 30% was obtained from property taxes. Fees and charges for services accounted for another 12%. State-shared revenues were 25% and capital grants and contributions (mostly in the form of the tire grant) totaled 31%. Other revenues (donations, interest, etc.) were 2%. The total cost of all programs and services at June 30, 2004 was \$1,098,297. Township expenses cover a wide range of services. For the current fiscal year the Township's expenses were comprised of 33% for general government, 26% for public safety, 31% for capital outlay, 4% for parks and recreation, and 6% for highways, roads and debt service.

TABLE 2 – Changes in Township of Somerset's Net Assets

	Governmental Activities
	<u>2004</u>
Revenue	
Program Revenue	
Charges for services	\$ 141,273
Operating grants and contributions	372,646
General Revenue	
Property taxes	365,138
State-shared revenues	294,244
Interest	6,160
Donations	2,175
Other	16,549
Total Revenue	<u>\$1,198,185</u>
Program Expenses	
General government	\$ 358,781
Public safety	283,017
Highways and roads	66,348
Parks and recreation	41,490
Capital outlay	343,456
Interest on long-term debt	5,205
Total Program Expenses	<u>\$1,098,297</u>
Change in Net Assets	<u>\$ 99,888</u>

Management's Discussion and Analysis

**Governmental Activities**

In fiscal year 2004, the Township experienced a decrease in its State-shared revenues in the amount of \$18,000 due to statewide economic conditions. Additionally, the Township recognized a decrease in donations from other organizations and individuals in the amount of \$40,000. However, these revenue decreases were offset by reduced spending and increases in charges for services and building permits.

During the year the Township was awarded and expended \$323,000 towards the continued efforts in disposing of tires collected by a local property owner.

**Financial Analysis of the Township's Funds**

The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, grants, contributions or capital projects. The Township's major funds for 2003/2004 consist of the following funds: General, Fire, Road, Debt Retirement, and Capital Improvement.

The General Fund is the main operating fund of the Township. Total General Fund revenues and transfers for fiscal year 2003/2004 decreased due to the cuts in State-shared revenues. There was also a slight decrease in property taxes due to the Headlee Rollback Act.

General Fund expenditure increased due to increases in general government costs. However, actual expenditures were less than the final amended budget. Furthermore, the final amended budget was increased from the original adopted budget by an amount equal to \$20,650 primarily due to a settlement with Hillsdale County for previous years mapping services that were not included in the original budget. There were no other significant variances in the budgets to actual.

The other significant increase occurred in the Capital Improvement Fund due to the major construction project of re-roofing the Jerome Community Building and installing a new furnace in the Berm House at McCourtie Park.

As of June 30, 2004 the fund balance in the General Fund was \$405,697 representing approximately 87% of General Fund operating expenditures and transfers.

**General Fund Highlights**

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the Township government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

**Capital Asset and Debt Administration**

At the end of fiscal year 2004, the Township had approximately \$954,040 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, etc. There is no related infrastructure reported in the year end net capital investment. The Township elected to follow the method of prospective reporting of infrastructure assets provided in the new reporting pronouncement.

Management's Discussion and Analysis

**Capital Asset and Debt Administration (Concluded)**

The Township continues to pay down debt obligations related to capital investments. At June 30, 2004 debt related to capital assets totaled \$42,882. These debt obligations are scheduled to be paid off by February 1, 2006.

The Township also funds fire rescue equipment replacements by setting aside cash in the Fire Fund. The Township properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

**Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2004/2005 is based on the same property tax rate as was for year ended June 30, 2004. This can be accomplished because of the continuous growth in the tax base. However, because of the impact of the State-shared revenue cuts the Township will continue to watch its budget very close.

The 2004/2005 budget includes monies designated in the Capital Improvement Fund for improvements to the Township offices/fire department building to include re-roofing, staining the outside of the building and installing new doors. Additionally, there is provision in the budget for computer upgrades.

Subsequent to the year ended June 30, 2004 there was destruction to many trees in the Township resulting from a storm. The clean up of those trees will not be reimbursed by the Township's insurance company. The cost incurred by the Township totaled \$26,000 which was not a planned expenditure in the Township's 2004/2005 budget.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements, we welcome you to contact the Township Clerk's office located at 12715 East Chicago Road, Somerset, Michigan 49282.

TOWNSHIP OF SOMERSET, MICHIGAN  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

GOVERNMENTAL  
ACTIVITIES

ASSETS

Current Assets:

Cash	\$ 665,055
Accounts receivable	3,677
Special assessment receivable, current portion	3,467
Due from other funds	207
Due from other governmental units	<u>69,007</u>

Total Current Assets	<u>\$ 741,413</u>
----------------------	-------------------

Noncurrent Assets:

Special assessment receivable, net of current portion	\$ 21,941
Grave sites available for sale	293,625
Capital assets	1,491,921
Less: accumulated depreciation	<u>(537,881)</u>

Total Noncurrent Assets	<u>\$ 1,269,606</u>
-------------------------	---------------------

TOTAL ASSETS	<u><u>\$ 2,011,019</u></u>
--------------	----------------------------

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 5,264
Current portion, long-term debt	79,382
Compensated absences	2,799
Other accrued liabilities	<u>208</u>

Total Current Liabilities	<u>\$ 87,653</u>
---------------------------	------------------

Noncurrent Liabilities:

Long-term debt, net of current portion	<u>\$ 92,500</u>
--	------------------

TOTAL LIABILITIES	<u>\$ 180,153</u>
-------------------	-------------------

Net Assets:

Invested in capital assets, net of related debt	\$ 911,158
---	------------

Restricted :

Metro Act expenditures	12,014
Repayment of debt	53,424
Police training	129
Cemetery perpetual care:	
Nonexpendable	500
Expendable	2

Unrestricted	<u>853,639</u>
--------------	----------------

Total Net Assets	<u>\$ 1,830,866</u>
------------------	---------------------

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,011,019</u></u>
----------------------------------	----------------------------

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

JUNE 30, 2004

	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
GOVERNMENTAL ACTIVITIES				
General government	\$ 358,781	\$ 128,382	\$	\$ (230,399)
Public safety	283,017	11,431	37,130	(234,456)
Highways and roads	66,348		10,928	(55,420)
Parks and recreation	41,490	1,460	1,282	(38,748)
Capital outlay	343,456		323,306	(20,150)
Interest on long-term debt	5,205			(5,205)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,098,297</u>	<u>\$ 141,273</u>	<u>\$ 372,646</u>	<u>\$ (584,378)</u>
		GENERAL REVENUES		
		Property taxes		\$ 365,138
		State-shared revenues		294,244
		Interest		6,160
		Donations		2,175
		Other		16,549
		TOTAL GENERAL REVENUES		<u>\$ 684,266</u>
		CHANGE IN NET ASSETS		<u>\$ 99,888</u>
		NET ASSETS - BEGINNING		<u>1,730,978</u>
		NET ASSETS - ENDING		<u>\$ 1,830,866</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
BALANCE SHEET - ALL GOVERNMENTAL FUNDS  
JUNE 30, 2004

	GENERAL FUND	ROADS	FIRE	DEBT RETIREMENT
<b>ASSETS</b>				
Cash	\$ 321,186	\$ 142,785	\$ 18,664	\$ 53,424
Accounts receivable	3,677			
Due from other funds	12,678			
Due from other government units	68,156			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 405,697</u>	<u>\$ 142,785</u>	<u>\$ 18,664</u>	<u>\$ 53,424</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$	\$ 5,264	\$	\$
Other accrued liabilities				
Due to other funds		12,471		
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>\$</u>	<u>\$ 17,735</u>	<u>\$</u>	<u>\$</u>
Fund Balances:				
Reserved for:				
Metro Act expenditures	\$	\$ 12,014	\$	\$
Payment of debt				53,424
Police training				
Cemetery perpetual care				
Unreserved:				
Designated			48,000	
Undesignated	405,697	113,036	(29,336)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 405,697</u>	<u>\$ 125,050</u>	<u>\$ 18,664</u>	<u>\$ 53,424</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 405,697</u>	<u>\$ 142,785</u>	<u>\$ 18,664</u>	<u>\$ 53,424</u>

See accompanying notes to the basic financial statements.

CAPITAL IMPROVEMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 78,703	\$ 50,293	\$ 665,055
		3,677
		12,678
	851	69,007
<u>\$ 78,703</u>	<u>\$ 51,144</u>	<u>\$ 750,417</u>
\$	\$	\$ 5,264
	208	208
		12,471
<u>\$</u>	<u>\$ 208</u>	<u>\$ 17,943</u>
\$	\$	\$ 12,014
		53,424
	129	129
	500	500
		48,000
<u>78,703</u>	<u>50,307</u>	<u>618,407</u>
<u>\$ 78,703</u>	<u>\$ 50,936</u>	<u>\$ 732,474</u>
<u>\$ 78,703</u>	<u>\$ 51,144</u>	<u>\$ 750,417</u>

TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS

JUNE 30, 2004

GOVERNMENTAL FUND BALANCES \$ 732,474

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and  
are not reported in the funds.

The cost of the capital assets is	\$1,491,921	
Accumulated depreciation is	<u>(537,881)</u>	954,040

Receivables are expected to be collected in future years and are not available to pay for current year expenditures	25,408
--	--------

Cemetery grave sites available for sale are not current financial resources	293,625
---	---------

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Leases	(1,382)
Bank notes	(41,500)
Compensated absences	(2,799)
Revenue bonds	(25,000)
Other long-term obligations	<u>(104,000)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,830,866</u>
---------------------------------------	---------------------

See accompanying notes to the basic financial statements.

## TOWNSHIP OF SOMERSET, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL FUND	ROADS	FIRE	DEBT RETIREMENT
REVENUES				
Taxes	\$ 96,224	\$ 39,225	\$ 98,503	\$ 3,462
Federal revenues			35,645	
State revenues	294,244	10,928		
Charges for services	61,141			
Licenses and permits	39,524			
Fines, fees, and forfeits	19,147		8	
Donations	2,175		500	
Interest	3,845	1,161	136	598
Rental revenue	8,570			
Other	17,334		3,516	
TOTAL REVENUES	<u>\$ 542,204</u>	<u>\$ 51,314</u>	<u>\$ 138,308</u>	<u>\$ 4,060</u>
EXPENDITURES				
General government	\$ 374,356	\$	\$	\$
Public safety			160,143	
Highways and roads		66,348		
Parks and recreation				
Debt service:				
Principal retirement				15,000
Interest				2,400
Capital outlay				
TOTAL EXPENDITURES	<u>\$ 374,356</u>	<u>\$ 66,348</u>	<u>\$ 160,143</u>	<u>\$ 17,400</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 167,848</u>	<u>\$ (15,034)</u>	<u>\$ (21,835)</u>	<u>\$ (13,340)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$	\$	\$ 54,000	\$
Operating transfers (out)	(89,000)			
Payments on long-term debt			(27,952)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (89,000)</u>	<u>\$</u>	<u>\$ 26,048</u>	<u>\$</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>\$ 78,848</u>	<u>\$ (15,034)</u>	<u>\$ 4,213</u>	<u>\$ (13,340)</u>
FUND BALANCES - BEGINNING	<u>326,849</u>	<u>140,084</u>	<u>14,451</u>	<u>66,764</u>
FUND BALANCES - ENDING	<u>\$ 405,697</u>	<u>\$ 125,050</u>	<u>\$ 18,664</u>	<u>\$ 53,424</u>

See accompanying notes to the basic financial statements.

CAPITAL IMPROVEMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 32,834	\$ 98,538	\$ 368,786
		35,645
323,306	915	629,393
		61,141
	1,354	40,878
	6,553	25,708
	1,352	4,027
265	155	6,160
	1,460	10,030
	1,215	22,065
<u>\$ 356,405</u>	<u>\$ 111,542</u>	<u>\$ 1,203,833</u>
 \$	 \$	 \$
	102,306	374,356
		262,449
		66,348
	41,780	41,780
		15,000
		2,400
341,399		341,399
<u>\$ 341,399</u>	<u>\$ 144,086</u>	<u>\$ 1,103,732</u>
 \$	 \$	 \$
15,006	(32,544)	100,101
<u>\$ 50,000</u>	<u>\$ 10,000</u>	<u>\$ 114,000</u>
(25,000)		(114,000)
	(1,685)	(29,637)
<u>\$ 25,000</u>	<u>\$ 8,315</u>	<u>\$ (29,637)</u>
 \$	 \$	 \$
40,006	(24,229)	70,464
38,697	75,165	662,010
<u>\$ 78,703</u>	<u>\$ 50,936</u>	<u>\$ 732,474</u>

TOWNSHIP OF SOMERSET, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 70,464

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (76,920)	
Capital outlay	<u>47,046</u>	(29,874)

Repayment of capital leases is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 1,599

Repayment of bank notes, revenue bonds, and other long-term obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities. 66,146

In the statement of activities, compensated absences (sick leave and vacations) are measured by the amounts earned during the year. Therefore, when leave time is earned it is recognized as expenditures in the statement of activities. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned exceeded the amounts paid. (2,799)

Receipts for the sale of cemetery grave sites are revenue in the governmental funds, but the receipts reduce cemetery graves sites available for sale in the governmental activities. (2,000)

Receipts collected on special road assessments are revenues in the governmental funds, but the receipts reduce long-term receivables in the governmental activities. (3,648)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 99,888

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN  
FIDUCIARY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 2004

	TAX COLLECTION AGENCY FUND
ASSETS	
Cash	<u>\$ 207</u>
LIABILITIES	
Due to other funds	<u>\$ 207</u>

See accompanying notes to the basic financial statements.

TOWNSHIP OF SOMERSET, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Somerset, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Township of Somerset (the "Township") was organized in 1837. The Township operates under a part-time elected board and provides the following services to its residents: Public Safety - police and fire, Parks and Recreation, Public Improvements, and General Administrative Services.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the Township's financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the Township's activities, including fixed assets (building, equipment, vehicles, etc.)
- A change in the fund financial statements to focus on major funds

ECONOMIC DEPENDENCY

The Township is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the Township's operating results would report expenditures exceeding revenues in its General Fund. Furthermore, the General Fund would be in a deficit position within a two year period continuing the services the Township currently provides.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the Township.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONCLUDED)

The Township reports the following major governmental funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* is used to account for road maintenance costs. The costs are funded through the collection of property taxes and appropriations from the General Fund.

The *Fire Fund* is used to account for fire protection services. The costs are funded through the collection of property taxes and appropriations from the General and Capital Improvement Funds.

The *Capital Improvement Fund* accounts for the acquisition or construction of major capital facilities and equipment. The costs are funded through the collection of property taxes and appropriations from the General Fund.

The *Debt Retirement Fund* is used to account for the accumulation of property tax collections for, and the payment of, long-term debt, principal, interest and related costs.

Additionally, the Township reports the following fund types:

Governmental Funds

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

*Permanent Funds* account for assets held by the Township pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Township's permanent fund is a Cemetery Memorial Fund. This fund is reported as another non-major governmental fund.

Fiduciary Funds (Not included in government-wide statements)

*Fiduciary Funds* are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support Township operations.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The Township presently collects and distributes property taxes on behalf of and to other local units of government through its agency fund.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions. When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BANK DEPOSITS

All accounts and deposits with original maturity of three months or less from date of acquisition are considered to be cash.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All receivables are reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the life of an asset are not capitalized but rather expensed in the period incurred.

The Township has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	YEARS
Buildings	40
Improvements	15-40
Equipment	10-20
Furniture and library books	3-5
Vehicles	3-20

CEMETERY GRAVE SITES

The Township has available for sale 2,349 cemetery grave sites. These grave sites are priced at \$125 per grave site. At June 30, 2004 the grave sites are valued at \$293,625 and reported as non-current assets in the statement of net assets.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

Full time employees are eligible to earn vacation and sick/personal leave time. Vacation leave time is earned based on the number of service years employed. Sick/leave is earned annually and is limited to six days per year. All leave time earned is available to the employees on their anniversary hire date. Leave time is not allowed to accumulate and must be used prior to the employee's anniversary date.

At June 30, 2004 the balance of unused leave exceeded paid leave time in the amount of \$2,799.

LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

PROPERTY TAX

The Township of Somerset, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become a lien on July 1 of the following year for summer taxes and December 31 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 28, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the Township by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

BUDGETS AND BUDGETARY ACCOUNTING

The Township's budgetary procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments
3. Prior to July 1, the budget is usually enacted through passage of an ordinance.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Project Fund.
5. Budgets for the General, Special Revenue and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the Township Board. Budgets for the General Fund are adopted on a functional basis.
6. Any excess amount budgeted for expenditures are covered by a carryover in fund balance from previous years.
7. The budgeted revenues and expenditures for governmental fund types are presented in the statement of revenues, expenditures and changes in fund balances – budget and actual – all governmental fund types, including any authorized amendments to the original budget as adopted.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2004.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States, repurchase agreements, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase and not more than fifty percent of any fund may be invested, obligations of the State of Michigan or its political subdivisions, which are rated as investment grade, and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of Township funds. The investment policy adopted by the Township is in accordance with Public Act 196 of 1997.

At year end, the deposits were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES	FIDUCIARY FUNDS	TOTAL GOVERNMENT
Cash	\$ 598,986	\$ 207	\$ 599,193
Cash - restricted	66,069		66,069
	<u>\$ 665,055</u>	<u>\$ 207</u>	<u>\$ 665,262</u>

Restricted cash is comprised of fund balance reserves disclosed in NOTE 8.

The breakdown between cash and investments for the Township are as follows:

	TOTAL GOVERNMENT
Cash (checking accounts, savings accounts and certificates of deposits)	\$ 412,612
Municipal mutual funds	252,350
Petty cash	300
Total	<u>\$ 665,262</u>

The bank balance of the Township's deposits is \$681,167, of which \$417,977 is covered by federal depository insurance.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

NOTE 3: CAPITAL ASSETS

Capital asset activity of the Township was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DISPOSALS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated:				
Land	\$ 226,000	\$	\$	\$ 226,000
Capital assets being depreciated:				
Buildings and improvements	534,930	6,300		541,230
Machinery and equipment	147,197	40,746		187,943
Vehicles	462,162			462,162
Office equipment and furnishings	74,586			74,586
Subtotal	<u>\$ 1,444,875</u>	<u>\$ 47,046</u>	<u>\$</u>	<u>\$ 1,491,921</u>
Accumulated depreciation:				
Buildings and improvements	\$ 218,059	\$ 15,959	\$	\$ 234,018
Machinery and equipment	41,121	11,388		52,509
Vehicles	169,344	40,846		210,190
Office equipment and furnishings	32,437	8,727		41,164
Subtotal	<u>\$ 460,961</u>	<u>\$ 76,920</u>	<u>\$</u>	<u>\$ 537,881</u>
Net Capital Assets	<u>\$ 983,914</u>	<u>\$ (29,874)</u>	<u>\$</u>	<u>\$ 954,040</u>

Depreciation expense was charged to programs of the Township as follows:

General government	\$ 10,425
Public safety	58,428
Parks and recreation	6,010
Capital outlay	<u>2,057</u>
	<u>\$ 76,920</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 4: SPECIAL ASSESSMENT RECEIVABLE

In year ended June 30, 2001 the Township provided a road paving project at the request of local property owners residing in the Township. In exchange for the new paved road the property owners agreed to a special property tax assessment to pay for the project. The cost of the project totaled \$50,000 to be collected over ten years. Property owners are assessed \$5,500 that includes interest at 8% annually. The assessment continues through the year ending June 30, 2010. The special assessment receivable is reported in the statement of net assets.

Future property tax assessments are as follows:

JUNE 30	PRINCIPAL	INTEREST	TOTAL
2005	\$ 3,467	\$ 2,033	\$ 5,500
2006	3,745	1,755	5,500
2007	4,044	1,456	5,500
2008	4,368	1,132	5,500
2009	4,717	783	5,500
2010	<u>5,067</u>	<u>433</u>	<u>5,500</u>
	<u>\$ 25,408</u>	<u>\$ 7,592</u>	<u>\$ 33,000</u>

NOTE 5: LONG-TERM DEBT

Long-term debt at June 30, 2004 is comprised of the following:

Kansas State Bank capital lease, secured by police equipment, payable in monthly installments of \$173, with interest at 17.38%, through February 10, 2005	\$ 1,382
Southern Michigan Bank and Trust, secured by fire truck, payable in monthly installments of \$2,330, with interest at 5%, through February 1, 2006	41,500
Addison Hospital Authority payable in monthly installments of \$2,167 through June 30, 2008	104,000
\$175,000 1995 Special Assessment Revenue Bonds, payable in annual installments of \$15,000 to \$25,000, with interest at a rate of 5.0% to 7.0%, through March 1, 2005	<u>25,000</u>
	\$171,882
Less: current portion of long-term debt	<u>79,382</u>
TOTAL LONG-TERM DEBT	<u>\$ 92,500</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2004

NOTE 5: LONG-TERM DEBT (CONCLUDED)

The following is a summary of changes in long-term debt:

	BALANCE JULY 1, 2003	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Kansas State Bank – capital lease	\$ 2,981	\$	\$ 1,599	\$ 1,382
Southern Michigan Bank & Trust	66,646		25,146	41,500
Addison Hospital Authority	130,000		26,000	104,000
Special Assessment Revenue Bond	<u>40,000</u>	<u></u>	<u>15,000</u>	<u>25,000</u>
Total Governmental Activities	<u>\$ 239,627</u>	<u>\$</u>	<u>\$ 67,745</u>	<u>\$ 171,882</u>

The following is a schedule of principal and interest maturities:

	<u>GOVERNMENTAL ACTIVITIES</u>		
	PRINCIPAL	INTEREST	TOTAL
2005	\$ 79,382	\$ 3,050	\$ 82,432
2006	40,500	375	40,875
2007	26,000		26,000
2008	<u>26,000</u>	<u></u>	<u>26,000</u>
	<u>\$ 171,882</u>	<u>\$ 3,425</u>	<u>\$ 175,307</u>

NOTE 6: INTERFUND LOAN

During the 2001 year the Township's General Fund loaned the Road Fund \$30,000 towards a paving project disclosed in NOTE 4. The Road Fund is required to repay the principal amount loaned plus 8% interest back to the General Fund from amounts collected on the special assessment each year until fully paid by 2010. At June 30, 2004 the outstanding obligation to the General Fund was \$12,471 comprised of a principal balance of \$10,832 and accrued interest of \$1,639.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 7: EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved Fire and Parks and Recreation Funds budgets of the Township were adopted at the fund level. During the year ended June 30, 2004, the Township incurred expenditures in these funds, which were in excess of the amount budgeted as follows:

	FINAL BUDGET	ACTUAL	UNFAVORABLE VARIANCE
Fire Fund	\$160,200	\$188,095	\$ (27,895)
Parks and Recreation Fund	35,600	41,780	(6,180)

NOTE 8: FUND EQUITIES

Reserved and designated fund balances at June 30, 2004 were as follows:

	RESERVED	DESIGNATED
<u>FUND BALANCE</u>		
Police Fund		
Police training – Act 302	\$ 129	\$
Road Fund		
Metro Act funding	12,014	
Fire Fund		
Equipment replacement		48,000
Cemetery Permanent Fund		
Cemetery perpetual care		
Nonexpendable	500	
Expendable	2	
Debt Retirement Fund		
Repayment of debt	<u>53,424</u>	
	<u>\$ 66,069</u>	<u>\$ 48,000</u>

Reserved

- Act 302 monies received from the State of Michigan are restricted for police training.
- Metro Act monies received from the State of Michigan are restricted for right-of-way improvements and/or street lighting costs.
- Cemetery perpetual care monies are restricted into perpetuity whereby only interest earnings may be expended towards cemetery maintenance costs.
- Debt monies are restricted towards repayment of debt obligations.

Designated

- The Township Board designated Fire Fund cash and equity as set aside for future equipment replacements.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 9: OPERATING TRANSFERS

Interfund transfers for the current year were as follows:

GOVERNMENTAL ACTIVITIES

Transfers (out) from:	Transfers in to:	
General Fund	Fire Fund	\$ 29,000
General Fund	Capital Improvement Fund	50,000
General Fund	Police Fund	10,000
Capital Improvement Fund	Fire Fund	<u>25,000</u>
	Total	<u>\$114,000</u>

All transfers between Township funds are approved appropriations in the 2003-2004 budgets.

- Transfers from the General Fund subsidize other fund's operations.
- Capital Improvement Fund transfer to the Fire Fund provided funding for equipment purchases during the year.

NOTE 10: RISK MANAGEMENT

The Township of Somerset, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The Township of Somerset, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific Township of Somerset, Michigan facilities or events.

The Township continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

TOWNSHIP OF SOMERSET, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004

NOTE 11: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, Township management does not believe such disallowances, if any, will be material to the financial position of the Township.

NOTE 12: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2004 the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments*

No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment to GASB No. 33*

No. 37 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments: Omnibus*

No. 38 – *Certain Financial Statement Note Disclosures*

Interpretations

No. 6 – *Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending prior to June 15, 2005. The Township is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

TOWNSHIP OF SOMERSET, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
JUNE 30, 2004

NOTE 12: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS (CONCLUDED)

As a result of implementing these pronouncements for the year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Fund Balance – Governmental Activities – June 30, 2003	\$ 661,510
Additions:	
Governmental capital assets, including land, buildings, equipment, and furnishings as of July 1, 2003	1,444,875
Receivables expected to be collected in future years	29,056
Cemetery grave sites available for sale in future years	295,625
Cemetery Memorial Fund – permanent funds not available for spending	500
Subtractions:	
Accumulated depreciation as of July 1, 2003 on the above capital assets	460,961
Long-term liabilities to be paid in future years	<u>239,627</u>
Governmental Net Assets, Restated at July 1, 2003	<u>\$1,730,978</u>

NOTE 13: SUBSEQUENT EVENT

Subsequent to June 30, 2004 the Township incurred costs of \$26,000 resulting from a storm. According to management the clean up of damaged trees in the Township would not be covered by its insurance carrier.

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 96,200	\$ 101,060	\$ 96,224
State revenues	290,000	295,000	294,244
Charges for services	44,750	49,150	61,141
Licenses and permits	33,175	32,125	39,524
Fines and forfeits	12,000	17,500	19,147
Donations	3,100	2,100	2,175
Interest	5,100	2,000	3,845
Rental revenue	5,750	6,750	8,570
Other	13,300	15,650	17,334
TOTAL REVENUES	<u>\$ 503,375</u>	<u>\$ 521,335</u>	<u>\$ 542,204</u>
EXPENDITURES			
Township board	\$ 15,350	\$ 15,350	\$ 12,970
Supervisor	27,025	42,025	40,114
Elections	20,600	20,850	2,728
Assessor	61,460	61,860	59,756
Legal and accounting	25,650	25,650	11,015
Clerk	45,600	45,600	37,444
Board of review	2,125	2,125	1,239
Treasurer	49,100	49,200	35,300
MB offices	21,950	21,950	15,850
SCCR	9,900	10,100	6,607
JCB	24,300	24,300	14,745
Cemeteries	33,200	33,200	22,438
Social services	1,500	1,500	1,000
Building department	34,250	34,250	27,240
Drain expense	1,000	1,000	400
Street lights	4,500	4,500	5,025
Sewer ad-hoc committee		4,500	4,126
Underground storage tanks	3,600	3,700	675
Hospital services	26,000	26,000	26,000
Fireworks activities	6,800	6,900	5,538
Library	33,700	33,700	31,713
Planning and zoning	25,150	25,150	12,433
TOTAL EXPENDITURES	<u>\$ 472,760</u>	<u>\$ 493,410</u>	<u>\$ 374,356</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 30,615</u>	<u>\$ 27,925</u>	<u>\$ 167,848</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers (out)	<u>\$ (196,600)</u>	<u>\$ (196,600)</u>	<u>\$ (89,000)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>\$ (165,985)</u>	<u>\$ (168,675)</u>	<u>\$ 78,848</u>
FUND BALANCE - BEGINNING	<u>326,849</u>	<u>326,849</u>	<u>326,849</u>
FUND BALANCE - ENDING	<u>\$ 160,864</u>	<u>\$ 158,174</u>	<u>\$ 405,697</u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - ROADS

JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 38,000	\$ 38,000	\$ 39,225
State revenues			10,928
Interest	<u>250</u>	<u>250</u>	<u>1,161</u>
TOTAL REVENUES	<u>\$ 38,250</u>	<u>\$ 38,250</u>	<u>\$ 51,314</u>
EXPENDITURES			
Wages and benefits	\$ 400	\$ 400	\$ 247
Insurance	4,600	5,500	4,852
Road maintenance	103,150	102,250	59,609
Office supplies	100	100	
Interest expense	<u></u>	<u></u>	<u>1,640</u>
TOTAL EXPENDITURES	<u>\$ 108,250</u>	<u>\$ 108,250</u>	<u>\$ 66,348</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (70,000)</u>	<u>\$ (70,000)</u>	<u>\$ (15,034)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	<u>\$ 70,000</u>	<u>\$ 70,000</u>	<u>\$</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	\$	\$	\$ (15,034)
FUND BALANCE - BEGINNING	<u>140,084</u>	<u>140,084</u>	<u>140,084</u>
FUND BALANCE - ENDING	<u><u>\$ 140,084</u></u>	<u><u>\$ 140,084</u></u>	<u><u>\$ 125,050</u></u>

TOWNSHIP OF SOMERSET, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR SPECIAL REVENUE FUND - FIRE

JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 97,500	\$ 97,500	\$ 98,503
Federal revenues			35,645
Charges for services	7,000	7,000	8
Donations	1,500	1,500	500
Interest	1,000	1,000	136
Other			3,516
TOTAL REVENUES	<u>\$ 107,000</u>	<u>\$ 107,000</u>	<u>\$ 138,308</u>
EXPENDITURES			
Wages and benefits	\$ 85,700	\$ 85,700	\$ 80,195
Supplies	6,400	6,400	4,038
Maintenance	7,500	7,500	7,976
Insurance	9,000	10,000	9,648
Utilities	2,400	2,400	2,236
Telephone	3,000	3,000	3,316
Equipment	11,500	10,500	48,693
Education and training	1,500	1,500	1,497
Contracted labor	1,900	1,900	1,423
Miscellaneous	3,400	3,400	1,121
TOTAL EXPENDITURES	<u>\$ 132,300</u>	<u>\$ 132,300</u>	<u>\$ 160,143</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (25,300)</u>	<u>\$ (25,300)</u>	<u>\$ (21,835)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	\$ 53,200	\$ 53,200	\$ 54,000
Payments on long-term debt	(27,900)	(27,900)	(27,952)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 25,300</u>	<u>\$ 25,300</u>	<u>\$ 26,048</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	\$	\$	\$ 4,213
FUND BALANCE - BEGINNING	<u>14,451</u>	<u>14,451</u>	<u>14,451</u>
FUND BALANCE - ENDING	<u>\$ 14,451</u>	<u>\$ 14,451</u>	<u>\$ 18,664</u>

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**GAO GOVERNMENT AUDITING STANDARDS REPORT**

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board  
Township of Somerset  
Somerset Center, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Somerset, as of and for the year ended June 30, 2004, which collectively comprise the Township of Somerset's basic financial statements and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township of Somerset's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Somerset's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that we have reported to management of Township of Somerset, Michigan in a separate letter dated September 2, 2004.

This report is intended for the information of the Township Board, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

*Osbourne, March, Condon + co., P.C.*

Certified Public Accountants

Hillsdale, Michigan  
September 2, 2004



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**COMMUNICATION TO TOWNSHIP BOARD**

September 2, 2004

Township Board  
Township of Somerset  
Somerset Center, Michigan

We have audited the financial statements of Township of Somerset for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 26, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Somerset. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application as necessary. The significant accounting policies used by Township of Somerset are described in Note 1 to the financial statements.

Township management implemented the following Governmental Accounting Standards Board pronouncements as required in the industry of local units of government:

Statements

- No. 33 – Accounting and Financial Reporting for Nonexchange Transactions
- No. 34 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment to GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's discussion and analysis – for State and Local Governments: Omnibus*
- No. 38 – Certain Financial Statement Note Disclosures

Interpretations

- No. 6 – *Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements*

We noted no transactions entered into by Township of Somerset during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout for employee compensated absences upon their death or retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction to the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Somerset's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Somerset, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Somerset's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Somerset's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Township Board and management. It is not intended to be and should not be used by anyone other than these specified parties.

*Osbourn, Manch, Candon + Co., P.C.*

Certified Public Accountants



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

**TOWNSHIP OF SOMERSET, MICHIGAN**  
**AUDITOR'S COMMENT AND RECOMMENDATION**

September 2, 2004

Township Board  
Township of Somerset  
Somerset Center, Michigan

In planning and performing our audit of the financial statements of Township of Somerset for the year ended June 30, 2004, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 2, 2004, on the financial statements of Township of Somerset.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Township's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation.

*Osbourne, March, Condon & Co., P.C.*

Certified Public Accountants

### ANTIFRAUD PROGRAMS AND CONTROLS

Township management, not the auditor, is responsible for designing and implementing effective systems and procedures for preventing, deterring, *and* detecting fraud. Currently the Township has a variety of controls in place that mitigate such activity. However, we recommend, the Township establish a process for assessing its risk for fraudulent activity and reevaluating those risks on a continuous basis. Furthermore, the Township should establish antifraud policies required to be adhered to by all employees. Internal controls and employee programs should be implemented in response to identified risks to mitigate fraudulent activities from occurring.